



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2017 Biennium

Bill #	HB0402	Title:	Generally revise laws related to oil and gas development
Primary Sponsor:	Knudsen, Austin	Status:	As Amended in Senate Committee

- | | | |
|--|---|---|
| <input checked="" type="checkbox"/> Significant Local Gov Impact | <input checked="" type="checkbox"/> Needs to be included in HB 2 | <input checked="" type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input checked="" type="checkbox"/> Significant Long-Term Impacts | <input checked="" type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2015 Difference</u>	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>
Expenditures:					
General Fund	\$27,500,000	\$0	\$0	\$0	\$0
State Special Revenue	\$0	\$27,754,783	\$36,410,169	\$19,287,764	\$20,207,747
Revenue:					
General Fund	(\$254,783)	(\$17,195,274)	(\$17,780,423)	(\$18,907,490)	(\$19,811,082)
State Special Revenue	\$27,754,783	\$17,195,274	\$17,780,423	\$18,907,490	\$19,811,082
Net Impact-General Fund Balance	<u>(\$27,754,783)</u>	<u>(\$17,195,274)</u>	<u>(\$17,780,423)</u>	<u>(\$18,907,490)</u>	<u>(\$19,811,082)</u>

Description of fiscal impact: HB 402, as amended, creates an oil and gas impact account that would be administered by the Department of Commerce for the purpose of awarding grants to local governments affected by oil and gas development. It would change the distribution of the state portion of the oil and gas production tax and federal mineral royalties to fund this account. In FY 2015, it directs a transfer of \$27,500,000 from the general fund to the oil and gas impact account.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

- HB 402 creates an oil and gas impact account that would be administered by the Department of Commerce for the purpose of awarding grants to local government units for infrastructure needed due to oil and gas development.

2. This bill would change the allocation of the state portion of the oil and natural gas production taxes, by allocating 1.75% to the oil and gas impact account. This would be in effect beginning the last quarter of FY 2015 (see technical note).
3. Oil and natural gas production tax revenue from HJ 2 and extrapolated using OBPP's growth rates were used for FY 2015 through FY 2019.
4. The following tables show the change in distribution of oil and gas production tax for FY 2015 through FY 2019.
5. FY 2015 changes to oil and gas production tax distribution:

FY 2015 Oil & Gas Tax Distribution			
	Present Law	Proposed Law	Difference
Total Tax Revenue	\$171,328,261	\$171,328,261	\$0
State Share	\$87,354,245	\$87,354,245	\$0
Natural Resource Projects Account	\$1,886,852	\$1,886,852	\$0
Natural Resource Operations Account	\$1,764,556	\$1,764,556	\$0
Orphan Share Account	\$2,576,950	\$2,576,950	\$0
University System	\$2,314,887	\$2,314,887	\$0
Oil & Gas Impact Account	\$0	\$254,783	\$254,783
General Fund	\$78,811,000	\$78,556,217	(\$254,783)

6. FY 2016 changes to oil and gas production tax distribution:

FY 2016 Oil & Gas Tax Distribution			
	Present Law	Proposed Law	Difference
Total Tax Revenue	\$128,804,348	\$128,804,348	\$0
State Share	\$65,672,800	\$65,672,800	\$0
Natural Resource Projects Account	\$1,418,532	\$1,418,532	\$0
Natural Resource Operations Account	\$1,326,591	\$1,326,591	\$0
Orphan Share Account	\$1,937,348	\$1,937,348	\$0
University System	\$1,740,329	\$1,740,329	\$0
Oil & Gas Impact Account	\$0	\$1,149,274	\$1,149,274
General Fund	\$59,250,000	\$58,100,726	(\$1,149,274)

7. FY 2017 changes to oil and gas production tax distribution:

FY 2017 Oil & Gas Tax Distribution			
	Present Law	Proposed Law	Difference
Total Tax Revenue	\$149,106,522	\$149,106,522	\$0
State Share	\$76,024,163	\$76,024,163	\$0
Natural Resource Projects Account	\$1,642,122	\$1,642,122	\$0
Natural Resource Operations Account	\$1,535,688	\$1,535,688	\$0
Orphan Share Account	\$2,242,713	\$2,242,713	\$0
University System	\$2,014,640	\$2,014,640	\$0
Oil & Gas Impact Account	\$0	\$1,330,423	\$1,330,423
General Fund	\$68,589,000	\$67,258,577	(\$1,330,423)

8. FY 2018 changes to oil and gas production tax distribution:

FY 2018 Oil & Gas Tax Distribution			
	Present Law	Proposed Law	Difference
Total Tax Revenue	\$148,211,883	\$148,211,883	\$0
State Share	\$75,568,018	\$75,568,018	\$0
Natural Resource Projects Account	\$1,632,269	\$1,632,269	\$0
Natural Resource Operations Account	\$1,526,474	\$1,526,474	\$0
Orphan Share Account	\$2,229,257	\$2,229,257	\$0
University System	\$2,002,552	\$2,002,552	\$0
Oil & Gas Impact Account	\$0	\$1,322,440	\$1,322,440
General Fund	\$68,177,466	\$66,855,026	(\$1,322,440)

9. FY 2019 changes to oil and gas production distribution:

FY 2019 Oil & Gas Tax Distribution			
	Present Law	Proposed Law	Difference
Total Tax Revenue	\$154,881,418	\$154,881,418	\$0
State Share	\$78,968,579	\$78,968,579	\$0
Natural Resource Projects Account	\$1,705,721	\$1,705,721	\$0
Natural Resource Operations Account	\$1,595,165	\$1,595,165	\$0
Orphan Share Account	\$2,329,573	\$2,329,573	\$0
University System	\$2,092,667	\$2,092,667	\$0
Oil & Gas Impact Account	\$0	\$1,381,950	\$1,381,950
General Fund	\$71,245,452	\$69,863,502	(\$1,381,950)

10. This bill directs the state treasurer to transfer \$27.5 million from the general fund to the oil and gas impact account by June 30, 2015.
11. Starting in FY 2016, this bill would allocate 50% of federal mineral royalty revenue to the oil and gas impact account.
12. The remaining mineral royalty revenue after the 50% distribution to the oil and gas impact account would be distributed 25% to the mineral impact account and 25% to the general fund.
13. Federal mineral royalty revenue from HJ 2 and extrapolated using OBPP's growth rates were used for FY 2015 through FY 2019.
14. The following tables show changes to the federal mineral royalty revenue distribution for FY 2016, the first year of the distribution (see technical note 2), through FY 2019.
15. FY 2016 changes to federal mineral royalty revenue distribution:

FY 2016 Federal Mineral Royalties Distribution			
	Present Law	Proposed Law	Difference
Total Tax Revenue	\$32,092,000	\$32,092,000	\$0
Mineral Impact Account	\$8,023,000	\$8,023,000	\$0
Oil & Gas Impact Account	\$0	\$16,046,000	\$16,046,000
General Fund	\$24,069,000	\$8,023,000	(\$16,046,000)

16. FY 2017 changes to federal mineral royalty revenue distribution:

FY 2017 Federal Mineral Royalties Distribution			
	Present Law	Proposed Law	Difference
Total Tax Revenue	\$32,900,000	\$32,900,000	\$0
Mineral Impact Account	\$8,225,000	\$8,225,000	\$0
Oil & Gas Impact Account	\$0	\$16,450,000	\$16,450,000
General Fund	\$24,675,000	\$8,225,000	(\$16,450,000)

17. FY 2018 changes to federal mineral royalty revenue distribution:

FY 2018 Federal Mineral Royalties Distribution			
	Present Law	Proposed Law	Difference
Total Tax Revenue	\$35,170,100	\$35,170,100	\$0
Mineral Impact Account	\$8,792,525	\$8,792,525	\$0
Oil & Gas Impact Account	\$0	\$17,585,050	\$17,585,050
General Fund	\$26,377,575	\$8,792,525	(\$17,585,050)

18. FY 2019 changes to federal mineral royalty revenue distribution:

FY 2019 Federal Mineral Royalties Distribution			
	Present Law	Proposed Law	Difference
Total Tax Revenue	\$36,858,264	\$36,858,264	\$0
Mineral Impact Account	\$9,214,566	\$9,214,566	\$0
Oil & Gas Impact Account	\$0	\$18,429,132	\$18,429,132
General Fund	\$27,643,698	\$9,214,566	(\$18,429,132)

19. This bill appropriates \$27.5 million from the oil and gas impact account to the Department of Commerce for fiscal year 2016 for the purpose of providing local governments grants for infrastructure needed due to oil and gas development.

20. This bill would result in administrative costs that would be absorbed by the department.

21. This bill is effective on passage and approval.

22. This bill terminates June 30, 2021.

Department of Commerce

23. Sections 1-5 of the bill create a new oil and gas impact program to be administered by the Department of Commerce. The department will receive applications from local governments for grants for oil and gas impact projects; prioritize the project applications in accordance with the statutory priorities and attributes; and award grants to eligible entities as defined in the bill. The purpose of the program is to provide grants to local governments who have been impacted by oil and gas development and need to maintain or expand local government drinking water systems, wastewater treatment, sanitary or storm water sewer systems, solid waste disposal, roads and bridges, facilities for government administration, fire protection, emergency services, schools, and law enforcement, or projects related to public health and welfare issues arising from or related to sex trafficking and criminal solicitation.

24. Based on similar competitive grant programs currently administered by the department, it is assumed the department would immediately require 3.00 FTE to address the duties and responsibilities mandated in the bill. 2.00 pay band 6 FTEs would be required to serve as program specialists; 1.00 pay band 4 FTE would be required to serve as administrative assistant. For the 3.00 new FTEs the estimated costs are \$203,227 for FY 2016 and \$202,979 for FY 2017. FY 2018 and FY 2019 costs are inflated 1.5% annually.

25. For the purposes of this fiscal note it is assumed the department's operating expenses would also increase. Staff would be expected to rank project applications, monitor grant awards and contracts, and periodically

visit project sites. Operating expenses are estimated to be \$143,602 in FY 2016 and \$130,998 in FY 2017. FY 2018 and FY 2019 costs are inflated 1.5% annually.

26. Grant expenditures are estimated to be approximately \$27.4 million in FY 2016, \$34.6 million in FY 2017, and approximately \$19 million per year in the 2019 biennium.
27. 17-1-508, MCA, requires analysis of the statutory appropriation relative to the guidance in 17-1-508(3), MCA, to be published in the fiscal note. In reviewing and establishing statutory appropriations, the legislature shall consider the following guidelines. Answer yes or no to each of the following guidelines regarding the statutory appropriation:

	YES	NO
a. The money is from a continuing, reliable, and estimable source.	X	
b. The use of the appropriation or the expenditure occurrence is predictable and reliable.	X	
c. The authority exists elsewhere.		X
d. An alternative appropriation method is available, practical, or effective.	X	
e. It appropriates state general fund money for purposes other than paying for emergency services.	X	
f. The money is used for general purposes.		X
g. The legislature wishes to review expenditure and appropriation levels each biennium.	X	
h. An expenditure cap and sunset date are excluded.		X

	<u>FY 2015 Difference</u>	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>
<u>Fiscal Impact:</u>					
FTE	0.00	3.00	3.00	3.00	3.00
<u>Expenditures:</u>					
Personal Services	\$0	\$203,227	\$202,979	\$206,024	\$209,114
Operating Expenses	\$0	\$143,602	\$130,998	\$132,963	\$134,957
Grants	\$0	\$27,407,954	\$34,641,720	\$18,568,503	\$19,467,011
Transfers	\$27,500,000	\$0	\$0	\$0	\$0
TOTAL Expenditures	<u>\$27,500,000</u>	<u>\$27,754,783</u>	<u>\$34,975,697</u>	<u>\$18,907,490</u>	<u>\$19,811,082</u>
<u>Funding of Expenditures:</u>					
General Fund (01)	\$27,500,000	\$0	\$0	\$0	\$0
State Special Revenue (02)	\$0	\$27,754,783	\$34,975,697	\$18,907,490	\$19,811,082
TOTAL Funding of Exp.	<u>\$27,500,000</u>	<u>\$27,754,783</u>	<u>\$34,975,697</u>	<u>\$18,907,490</u>	<u>\$19,811,082</u>
<u>Revenues:</u>					
General Fund (01)	(\$254,783)	(\$17,195,274)	(\$17,780,423)	(\$18,907,490)	(\$19,811,082)
State Special Revenue (02)	\$27,754,783	\$17,195,274	\$17,780,423	\$18,907,490	\$19,811,082
TOTAL Revenues	<u>\$27,500,000</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>					
General Fund (01)	(\$27,754,783)	(\$17,195,274)	(\$17,780,423)	(\$18,907,490)	(\$19,811,082)
State Special Revenue (02)	\$27,754,783	(\$10,559,509)	(\$17,195,274)	\$0	\$0

Effect on County or Other Local Revenues or Expenditures:

1. This bill creates an impact fund for local governments experiencing oil and gas production which have infrastructure needs. Local governments can apply for grants from this fund through the Department of Commerce.

Long-Term Impacts:

1. This bill is in effect through FY 2021 and will continue the diversion of general fund revenue through FY 2021.

Technical Notes:

1. This fiscal note assumes that the department would begin the distribution outlined in section 7 of the bill for oil and gas production occurring in the last two months of fourth quarter FY 2015.
2. This fiscal note assumes that the department would begin the distribution outlined in section 8 of the bill as of July 1, 2015 due to the timing of federal mineral leasing funds distributions.

Sponsor's Initials_____
Date_____
Budget Director's Initials_____
Date



Dedication of Revenue 2017 Biennium

17-1-507-509, MCA.

- a) Are there persons or entities that benefit from this dedicated revenue that do not pay? (please explain)**

Yes. This dedicated revenue is to be directed to local governments which have been impacted by increased oil and gas development. The Department of Commerce will administer a grant program, reviewing applications by local governments and awarding grants based on prioritized need.

- b) What special information or other advantages exist as a result of using a state special revenue fund that could not be obtained if the revenue were allocated to the general fund?**

A state special revenue account should be established for the program proposed in HB 402 because all expenditures and revenues related to the programs activities would be contained in a single fund.

- c) Is the source of revenue relevant to current use of the funds and adequate to fund the program activity that is intended? Yes / No (if no, explain)**

Yes, to the extent allowed in the bill.

- d) Does the need for this state special revenue provision still exist? ☒ Yes ☐ No (Explain)**

Yes. A state special revenue account should be established for the program proposed in HB 402 because all expenditures and revenues related to the programs activities would be contained in a single fund.

- e) Does the dedicated revenue affect the legislature's ability to scrutinize budgets, control expenditures, or establish priorities for state spending? (Please Explain)**

No. While statutorily appropriated, the funds in question are audited by the Office of the Legislative Auditor with any findings being presented to the Legislative Audit Committee.

- f) Does the dedicated revenue fulfill a continuing, legislatively recognized need? (Please Explain)**

Yes. A state special revenue account should be established for the program proposed in HB 402 because all expenditures and revenues related to the programs activities would be contained in a single fund.

- g) How does the dedicated revenue provision result in accounting/auditing efficiencies or inefficiencies in your agency? (Please Explain. Also, if the program/activity were general funded, could you adequately account for the program/activity?)**

Yes. A state special revenue account should be established for the program proposed in HB 402 because all expenditures and revenues related to the programs activities would be contained in a single fund.